

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 BRASILIA 002513

SIPDIS

E.O. 12958: DECL: 10/04/2014

TAGS: [PREL](#) [PGOV](#) [BR](#) [US](#)

SUBJECT: AMBASSADOR'S CALL ON PRESIDENCY CHIEF OF STAFF

DIRCEU, 1 OCTOBER 2004

Classified By: AMBASSADOR JOHN J. DANILOVICH. REASONS: 1.4
(B)(D).

11. (C) Summary. In an affable and candid first meeting with Ambassador, Presidential Chief of Staff and Lula right-hand man Jose Dirceu expressed optimism about bilateral relations, Brazil's economy and the potential for American investment in major new infrastructure projects. At the same time, he acknowledged "grave problems" and challenges to sustained development -- including educational inadequacies, unemployment, heavy debt and severe crime -- but stressed the GOB's efforts to attack all of these. He assured Ambassador that the GOB appreciates the current high sensitivity of nuclear non-proliferation issues and is "95 percent there" on conclusion of an agreement with the IAEA to facilitate agency inspections of Brazil's Rezende nuclear facility. End summary.

Bilateral and Regional Affairs

12. (C) Dirceu opined that the U.S. and Brazil are "enjoying their best bilateral relationship in 30 years." Both governments, he said, know how to separate out points of disagreement from the many other areas in which cooperation is robust and fluid. The excellent personal relationship between Presidents Bush and Lula da Silva augments the close ties between Brazilians and Americans in commerce, technology, sports, culture and other areas, Dirceu said. In regional affairs, Dirceu said that the U.S. and Brazil share a common interest in stability. He said Lula had made a decision that placing Brazil in the lead PKO role in Haiti was "important and worthwhile," and Brazil plans to continue its efforts to ameliorate tensions in Venezuela. He added that Brazil will also continue to strengthen democratic institutions and economies in Bolivia and Paraguay.

Internal Challenges

13. (C) Internally, Dirceu expressed optimism about prospects for development, even as he recognized "grave problems and challenges" that Brazil must address over the next two to three decades. These include the need: to expand educational opportunity throughout the population while adjusting priorities to address critical shortfalls Brazil faces in technical and medical disciplines; to use education and technical training to create conditions to absorb into the workforce "millions of unemployed" who are trapped in poverty; to attract financing for investment in infrastructure; and to address comprehensively the critical problem of Brazil's heavy internal and external debt burdens. On debt, Dirceu noted that the GOB had succeeded in reducing the "dollarized" portion of Brazil's internal debt from 40 percent to about 15 percent, with efforts underway to bring the percentage down to 10 percent. This is an important structural step to increase Brazil's defenses against external economic shocks, Dirceu added.

14. (C) Ambassador observed that Brazil is, indeed, in an excellent position, with the GOB's fiscal policies applauded in financial centers worldwide, and Brazil's regional and international leadership recognized. But Ambassador observed that many potential investors still register concerns about the investment climate in Brazil, citing taxes, excessive regulation and other issues as impediments.

15. (C) Dirceu agreed and repeatedly stressed the GOB's interest in attracting foreign investment in the infrastructure, including North American investment. Dirceu said that the GOB is striving to award contracts in a completely transparent and objective manner. He said the GOB is currently pursuing legislation to deal with lowering taxes, diminishing long-term capital investment costs, restructuring the mortgage real estate sector and adjusting bankruptcy laws. The GOB is especially keen to bring investment back into the energy sector, Dirceu said, where Brazil has construction or planning underway for a total of 57 hydroelectric plants. Dirceu also stressed that he was personally responsible for some of the new initiatives Brazil's Public-Private Partnerships drive, with focus on attracting investment and stimulating construction activity (and employment opportunities) that will expand and improve Brazil's ports, railroads and highways.

16. (C) Responding to Ambassador's observation that

international perceptions that Brazil suffers a severe crime problem (e.g., reference recent highly-publicized incidents on Ipanema/Leblon beaches in Rio) inhibit investment and tourism, Dirceu agreed and said the GOB is addressing public security as a top priority. The GOB's recent announcement that Brazil would implement its 1998 law permitting lethal force interdiction of suspected narcotrafficking aircraft had, Dirceu claimed, already resulted in 40 to 50 percent reduction of suspect flights in the Amazon region (although there has also been a small increase in such activity along the Bolivia-Peru borders). He said the GOB is also working to increase control along its frontiers, especially in the triborder and Amazon areas, and striving to enhance its intelligence capabilities. Brazil's flawed state police system, in which patrol and investigative functions are awkwardly divided between competing uniformed and civil police services, needs reform and the GOB is taking the lead in encouraging integration of key functions. Observing that corruption and infiltration of criminal elements into the police and justice systems of many states is endemic, Dirceu claimed that it is necessary for the federal government to lead on improving law enforcement against organized crime and trafficking in Brazil. Federal Police operations against organized crime and money laundering over the past 20 months are indicative of the current administration's assumption of this responsibility, which is a first in Brazil's history, Dirceu said.

Non-Proliferation

17. (C) Ambassador raised the issue of Brazil's cooperation with the IAEA in negotiating inspections at the Rezende nuclear facility and with regard to the Additional Protocol to the NPT. Ambassador stressed that the USG fully understands that Brazil's credential in non-proliferation are superb, and there is no suspicion that Brazil's nuclear program is directed toward weapons activities. Nonetheless, Ambassador stressed that the highly-charged question of mobilizing international pressure against nuclear weapons development in North Korea and Iran make Brazil's reluctance on inspections and the AP extremely awkward. Dirceu immediately acknowledged that he and President Lula understand the political sensitivity of the issue, have been meeting weekly with the Defense and Science Ministers to discuss resolutions, and Dirceu opined that he felt the IAEA and GOB are "95 percent there" in coming to an agreement for Rezende inspections in the near future.

18. (C) Comment: Dirceu was affable, candid and thoughtful in his observations, and clearly interested in maintaining continued contact with Ambassador. He indicated he would encourage President Lula to make a stop in California (en route perhaps to the Orient of a future trip) to see Silicon Valley, talk to investors and firms with presence in Brazil, and speak at Stanford University (Dirceu's interest seemed fueled partly by his expression of a life-long desire to visit San Francisco). While some of his comments may have been boilerplate, Dirceu was quite energetically engaged in appealing for American interest in new infrastructure investment opportunities, and extremely alert and reactive in discussing the IAEA issues.

Danilovich